

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

December 5, 2003

11 North Washington Street, Suite 250
Rockville, Maryland

Board Members Present: Stephen Farber, Chair
 Arthur Spengler, Vice-Chair
 Mark Barnard
 Tim Firestine
 Sharon Cayelli
 John Sparks
 Beverley Swaim-Staley
 Joseph Adler

Staff: Peter Krzyzek, Executive Director
 Linda Herman, Senior Investment Officer

Others Present: Mark Brubaker, Wilshire Associates
 Connie Donovan, General Counsel to the Board

CALL TO ORDER

Mr. Farber called the open session of the Board to order at 10:50 a.m.

APPROVAL OF MINUTES

The Board unanimously approved the minutes of the September 5, 2003 open session.

PRIVATE EQUITY FUND-OF-FUNDS MANAGER PRESENTATION

Mr. Barnard discussed the rationale for expanding the alternative asset class to include two private equity fund-of-funds managers. Mr. Brubaker presented Wilshire's analysis of adding another manager to provide access to a broader range of partnerships, enhance diversification, and reduce the possibility of future capacity constraints that may limit our investment in the asset class. Staff, in conjunction with Wilshire, recommends the Board consider investing \$60 million with HarbourVest allocating 80% to the buyout fund and 20% to the venture capital fund. The Board discussed the proposal. The following resolution was moved and approved with Mr. Barnard abstaining due to a conflict and Mr. Spengler voting against:

0312-01 Resolved, That the Board approves the hiring of HarbourVest Partners, with a \$60 million investment allocated 80% to the buyout fund and 20% to the venture capital fund, pending contract negotiations.

FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK

Mr. Brubaker discussed the performance of the Employees' Retirement System as of September 30, 2003 and noted the total fund performance ranked at the 10th percentile when compared to Wilshire's Public Fund Universe. The fund's outperformance was attributed to the strong performance of the international, emerging markets, and high yield portfolios. Most of the ERS' investment managers ranked in the top quartile of their respective universes. Mr. Brubaker noted the top performing funds in the Retirement Savings Plan. Wilshire continues to monitor the investigations within the mutual fund industry and any involvement with the deferred compensation providers.

INVESTMENT COMMITTEE REPORT

Mr. Barnard discussed the Investment Committee Report.

Fidelity Contract: Ms. Herman summarized the changes to the Fidelity Investment contract for services to the deferred compensation plan discussed in closed session. The Board approved the following resolution:

312-02 *Resolved, That the Board approves changes to the Fidelity Investments deferred compensation contract as outlined in the memorandum, including adding a default fund option for contributions received without a designated investment option.*

Annual Review of Plans: Mr. Brubaker presented Wilshire's annual assessment of the Board's adherence to industry standards (as defined by Wilshire) related to the structure of the investment programs of the three retirement plans.

Semi-Annual Risk Report: Mr. Krzyzek discussed the results of the semi-annual risk report and quarterly reviews of the investment managers' portfolios for risk and compliance.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Firestine presented to the Board the report of Administrative Committee activities.

Due Diligence/Continuing Education Report: Mr. Firestine presented the quarterly report of due diligence and education expenses as of September 30, 2003, noting there were no new requests for the next quarter. The Board accepted the report as presented.

Personnel Matter: Mr. Firestine highlighted the need to hire temporary help as discussed in the closed session. The Board approved the following resolution:

0312-03 *Resolved, That the Board approves the re-allocation of monies from salaries and benefits to professional services of up to the \$5,000 limit of the letter agreement, to provide temporary services to the Board staff.*

Estimated FY 2004 & FY 2005 Budgets: Mr. Firestine presented the Board's annual budget for the three retirement plans addressing the overview section which included the actual 2003 costs, estimated 2004 and projected 2005. The Board discussed the vendor fees for the ERS'

benefit processing. The Board agreed to review the vendor contract at the next administrative committee meeting. The Board approved the following resolution:

0312-04 *Resolved, That the Board approves Board-related expenses associated with the ERS, RSP and DCP budgets for FY 05, to be updated for salary and benefit changes as supplied by the Office of Management and Budget.*

Retirement Savings Plan – FY 05 Administrative Fee: Ms. Herman discussed the analysis of the Retirement Savings Plan's income and expense items for FY 03 through FY 05. Ms. Herman recommended the Board consider charging an administrative fee for FY 05 and beyond, as necessary to pay Plan expenses. The Board discussed the projected costs and revenue items questioning the increase in administrative costs in 2003 and the projected ending cash balance at June 30, 2004. The Board recommended the following resolution:

0309-06 *Resolved, That the Board approves no administrative fee be charged to participating agencies in FY 05 contingent on CAO approval.*

ERS Quarterly Report: Mr. Firestine presented the draft ERS quarterly report to be transmitted by the CAO to the County Council. The Board requested the report be updated with information on the performance of the markets through November prior to being transmitted to the CAO.

Special Resolutions: The Board reaffirmed the following special resolutions:

#0310-1 - FY 04 Budget re-allocation for outside legal services related to Adams Street
#0310-2 - Rebalancing of the ERS portfolio

Both resolutions were approved by all Board members.

OTHER BUSINESS:

The Board discussed items on the workplan recommending no changes. Mr. Farber discussed the need to increase the number of RSP participants attending the free investment counseling sessions offered by the Board. The administrative committee will address the issue at their next meeting.

There being no further business of the Board, the open meeting session was adjourned at 11:55 p.m.

Respectfully submitted,

Sandra P. Kaiser, Secretary